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REVIEWS

SOME RECENT BOOKS ON PROTECTIVE TARIFFS

The work by Professor L. Fontana-Russo,¹ of the Institute of Commercial and Colonial Studies at Rome, first appeared in Italian in 1906. The French translation is fluent and shows little trace of Italian idioms. The typographical work, however, is unsatisfactory. Many letters and syllables are missing, and there are not a few misspelled words.

Book I is devoted to the theory of international commerce, including (1) the origin and nature of international commerce, (2) the doctrine of comparative costs, (3) the balance of debits and credits, (4) the part played by money in foreign commerce, especially where there is a premium on gold. In general, this book is based on Bastable and the classical school, tho in reference to the effects of a premium on gold the author at times follows Loria as against Marshall. As a whole it gives a clear and useful exposition of accepted doctrines.

Book II, discussing the different kinds of economic and commercial policies, contains the meat of the work. Here are most of the chapters to which the author calls special attention in the preface, notably those on the forces which determine commercial policies, and the relation of these policies to the density of population, the distribution of wealth, and to colonization. These chapters contain considerable useful matter, especially a detailed demonstration (if anyone anywhere still stands in need of such a demon-

¹ *Traité de politique commerciale*, par L. Fontana-Russo. Traduit de l'édition italienne remaniée par Felix Poli. vii, 707 pp. Paris, 1908.

stration) of how the interests of economic classes continually dominate politics. On the whole, however, the result is undeniably disappointing. The fundamental defect is that the work is not logically sound; different chapters and even parts of the same chapter are utterly irreconcilable, unless by an appeal to the identity of being and not-being.

For example, after giving what is essentially the Ricardian theory of international commerce, which, as the author himself says, leads inevitably to the policy of free trade, he forgets all about this theory when he comes to discuss commercial policies and develops into an enthusiastic protectionist, even going to the extreme of advocating double protection — agricultural and industrial — at the same time. This occurs, moreover, without the least attempt to reconcile protection with the theory of international commerce: so that the reader begins to doubt whether the author has really understood the theory he has just expounded. He does indeed see clearly the evil effects of protection, and especially of agricultural protection, on the distribution of wealth; tho he thinks these effects may be neutralized by differential taxation and the activity of labor organizations. On the other hand, he returns again and again to the statement that protection does actually increase production. Thus he contends that protection causes capital to withdraw from less productive and embark in more productive enterprises; that it also stimulates the growth of capital and attracts capital from abroad; that it moreover increases the exports of domestic goods; and finally that the burden it imposes is less than the loss which would otherwise occur through unemployment. The only argument introduced in support of these propositions (which are apparently regarded as self-evident) is an appeal to the prosperity of Germany and the United States, on the principle of *post hoc ergo propter hoc*.

In contrast to these alleged beneficent effects of protection, it is argued that free trade would indeed give lower prices, but to no purpose since the people would lack the means with which to buy; that the depopulation of Ireland

was due to the repeal of the Corn Laws; and that in Italy, an agricultural country, none of the principal crops is capable of prospering without protection. It would logically follow that a nation without protection may be unable to compete in anything, and have no option but to sit down and starve. All of which suggests a chamber of commerce petition or a "stand-patter" speech in the Congressional Record. If a surmise may be ventured as to the root-fallacy underlying these crude empiricisms, it is the tacit assumption: (1) that the labor and capital employed in a protected industry would not be employed at all without protection; or (2) that they would be less productively employed, because the owner of a protected plant is able to make a larger profit than in an unprotected industry, — which of course involves a confusion between individual profit and social production.

Moreover, in discussing the relation of protection to distribution, a course of economic development is assumed which is contrary both to history and reason. Thus it is asserted that the rate of interest is low in new countries and rises as capital comes more into use. Again, it is argued that land requires more fixed capital than do manufactures, yet (in absolute contradiction with this view) that as a country gets older and more of the circulating capital (wages fund) is transformed into fixed capital, the necessary result is a fall in wages. Moreover, it is maintained that the law of decreasing returns, whenever it applies generally, is opposed to economic rent. Further, it is held that the "productive classes" profit more than they lose from the rise in prices due to protection, because they are more largely debtors than creditors. Finally, it is repeatedly declared that the extension of protection in recent decades has been due in great part to the need of more revenue, whereas, as the author elsewhere recognizes, a protective duty, in so far as it is protective, of course cannot yield any revenue whatsoever.

Book III is devoted to the Technique of Commercial Policies, covering topics such as the classification of tariffs,

commercial treaties, and commercial statistics. In general it is usable but not highly important, tho the author calls special attention to the chapters on the "measure and duration of tariff duties," and the "shifting and incidence of tariff duties," the one because he regards it as treating a subject hitherto neglected (the factors entering into comparative costs), the other because of "the many grievous errors" which have been made in the field of taxation.

Incidentally, it may be noted that altho the author refers in the preface to "les remarquables ouvrages" of Elfferich, Grunzell, Shippel, and Van der Borgh, there is no reference to them in the body of the work, and but little evidence of familiarity with them. In fact, very few German works are cited at all, except in French translations: and the German words quoted are often quoted incorrectly.

Professor Pigou's *Protective and Preferential Import Duties*¹ is a small book of decided interest and value. It is, indeed, easily the most important product of the fiscal controversy in England, so far as concerns the discussion of fundamental doctrines.

The book embodies portions of the *Riddle of the Tariff*, by the same author, published in 1903, together with the substance of several articles which appeared in the *Edinburgh Review* and the *Fortnightly Review* in 1904 and 1906. This material has been worked over into a compact and logical whole. The argument refers to present conditions in England, and the work is controversial to the extent of opposing Mr. Chamberlain's proposals. In point of method, however, it is rigorously scientific; and some use is made, by way of illustration, of mathematical processes. The author indeed carries his impartiality to an extreme, so to speak, making some concessions to the protectionist argument which are logically unnecessary. The effect of this impartiality, of course, is to increase the weight of the adverse verdict that is eventually reached.

¹ *Protective and Preferential Import Duties*, by A. C. Pigou xiv, 117 pp. London, 1906

Part I, containing two chapters, discusses protective tariffs in relation to (1) the national dividend, (2) the national welfare; while Part II, also containing two chapters, considers preferential tariffs under corresponding heads. Despite the author's insistence that "the part which economic conclusions should play in determining questions of practical politics is often exceedingly small," it is clear that the chief value of this book lies in its searching analysis of the incidence and economic effects of protective tariffs. The substance of the argument is found in the first chapter; tho Part II, Chapter I, on the economics of colonial preference, also contains some acute reasoning.

To begin with, the author concedes that "the absolute *a priori* method of advocating free trade, that does duty in much popular discussion, breaks down before serious analysis;" and then proceeds to deal with the principal arguments advanced in England against the general free trade theory. In answer to the contention of Professor Ashley, that protection will attract foreign capital, it is shown that protection must inevitably repel at least as much as it attracts; and in answer to the familiar infant industries argument, it is pointed out that however valid as applied to an agricultural country, it can have no point in an old industrial country such as England. In reply to the argument that protection will increase the scale of home production, it is shown that this may mean: (1) an increase in the total output of the country, (2) an increase in the average size of plants, (3) a lessening of short-time, (4) a vertical consolidation of industry through control of successive processes, (5) a horizontal consolidation through control of plants carrying on the same process, as in the ordinary trust. It is further shown that only the horizontal consolidation, which withholds from the public the benefit of economies in production, is effectively promoted by a protective tariff. Again, in reply to the assertion that protection will prevent destructive "dumping," it is pointed out: (1) that under-cutting arises in the ordinary course of business, among domestic as well as foreign concerns;

(2) that a free-trade country, with a lower scale of prices, can more easily dump into a protected country than vice versa; (3) that deliberate dumping by a protected into a free-trade country would be useless because the advantages of monopoly prices could not be enjoyed, even tho all domestic concerns should be put out of business. Finally, in answer to the claim that the foreigner can be made to pay part of the tax, it is shown that this condition must at best be temporary, because the production of the taxed article will be checked: tho this check may eventually be spread in the form of a slightly lessened real return to all industries in the country producing the taxed article.

Especially penetrating is the discussion of the incidence and the revenue results of differential taxation, viz., a high duty on commodities from several sources, (a) when both sources are foreign, (b) when one is foreign and one domestic.

The work by Mr. Robertson ¹ is an elaboration of a sketch published in 1904. Like the book by Mr. Pigou, it deals chiefly with the fiscal question in England, but in point of method and tone it offers a marked contrast. It is a slashing polemic written by a man whose viewpoint is essentially that of the philosophical radicals, to whom the doctrine of relativity in economic matters is anathema, and who will consequently concede nothing to his opponents. Each line of argument is pursued and driven home until the protectionists are denounced by implication, and sometimes in express terms, as lacking in intelligence, or intellectual integrity — that is, as “least of all concerned to reach scientific views or to state critically the truth.”

Of the “fighting books” generated by the attempt to restore a protective tariff in England, this is certainly one of the best. It adds nothing to the theory of free trade: indeed, it does not attempt to deal with modern refinements of the theory represented by men like Bastable and Pigou. Even Mill and Fawcett (and of course Sidgwick) in Mr.

¹ Trade and Tariffs, by John M. Robertson, M. P. ix, 331 pp. London, 1908.

Robertson's opinion, concede too much to the adversary. But the author is a very keen dialectician, who with rigorous logic exposes to contempt and scorn the innumerable self-contradictions of the protectionist movement in England.

Part I, on the "Present Protectionist Movement," practically summarizes the main points of the book. Part II traces English restrictive legislation as to trade and navigation from medieval times down to the repeal of the Corn Laws, showing how it uniformly failed to accomplish the objects sought, how poverty and unemployment increased apace, and how free trade was finally forced by the peril of impending famine. Part III traces the effects of free trade in Holland, in Britain, and in New South Wales prior to confederation. Part IV examines the "Modern Failure of Protectionism" in France, Austria-Hungary, Russia, Switzerland, Sweden and Norway, Spain and Portugal, and especially the data as to unemployment, emigration, wages and cost of living in Germany and the United States. Part V, on "The Protectionist Case," discusses the theory of international trade, taking up in turn the arguments relating to the balance of trade, retaliation, dumping, unemployment, revenue, colonial preference, the effects of protection on food prices, the parasitic character of protected industries, and "the final futility of protection." Part VI, finally, discusses the ethics of protection; while an appendix is devoted to "Protectionist Fables."

A special merit of the work is the detailed proof offered of the shifting and mutually contradictory purposes of the protection movement in Great Britain. Thus Mr. Chamberlain's original argument in 1903 was based on the slow expansion of the export trade in manufactures. Now that a great expansion has occurred in this trade, he shifts to unemployment as the chief ground of complaint; yet he had previously claimed that an expansion of the export trade in manufactures would cure unemployment. Again, his original plan contemplated merely a preferential duty on wheat; now he calls for a duty on both food and manu-

factures, but promises to off-set the duties on food by lowering the duties on tobacco and tea. He claims, however, that the duty on wheat will not mean dearer bread. Where then is the advantage to the British farmer, whom he is so anxious to protect? Or to the colonial farmer? Or why do the duties on foods need to be offset, as he proposes? Or why, finally, does he not also impose duties on raw materials, if such duties will not raise the price? Further, the purpose is declared to be chiefly to cure unemployment by keeping out foreign manufactures; but it is also intended to raise additional revenue for imperial or social purposes. If foreign goods are kept out, how is additional revenue to be raised? Moreover, if foreign manufactures are excluded, the labor now employed in making the articles exported in exchange for such manufactures must be diverted to make these same manufactures at home, which consequently means smaller exports and higher prices. If it is desired to export more manufactures, protection is thus precisely the best way not to accomplish the purpose.

By way of criticism, it may be noted that the argument usually assumes that the whole of the tariff is added to the price in practically every case. This sweeping assumption is in striking contrast with Pigou's guarded utterances. Again, it is contended that the adoption of protection was due alike in France, Germany, and the United States, to the need of more revenue; yet elsewhere it is shown that a protective tariff, just in so far as it is protective, does not and cannot yield revenue. Further, it is denied that the change in the British Patent Law of 1907, which recognizes foreign patents only in case the goods are manufactured in Great Britain, is in effect protection. This denial is based on a mere quibble to the effect that a patent is itself protection, hence the refusal of a patent right except on certain conditions cannot be protection. Obviously, protection is here used in two senses, one referring to an individual, the other to a nation. Inasmuch as many foreign firms have been induced to set up factories in England, not by the natural advantages it offers, but by the necessity

of protecting their patent rights, the amended patent law clearly acts as an indirect form of protection in the national sense.

Minor blemishes are occasional errors of fact — notably the reference to Hamburg as still a free port — and certain eccentricities of diction, such as “pococurantist,” “deleted,” “worsens,” “worsening,” “worsened,” “minute general tariff” (= low general tariff), “foresters” (= lumbermen), and “followed upon with,” which is quite unintelligible. These peculiarities are however much less prominent than in the same author’s *Introduction to English Politics*, published in 1900.

The author of *Sixty Years of Protection in Canada*¹ was formerly an English journalist, but for many years has lived in this country. He is the author of several works on topics relating to England, and of two previously on Canada — one on Canadian journalism, another on the iron and steel bounties in Canada. He also traveled for several months with the Canadian Tariff Commission in 1905–6, and gathered material which is used to good effect in the book under review.

The present work deals with men and measures rather than with doctrines, and is consequently historical and political rather than economic in its bearings. It is essentially the work of a journalist: this fact suggests at once its merits and its limitations. It is, however, journalism of the best type. The author is a clear-headed man of sense and of ideals, who does not mince words in dealing with political infidelity; he has carefully sifted a vast mass of material relating to commercial policies in Canada; and he presents a most impressive array of facts tending to show the moral and political havoc wrought by protection. Incidentally, it may be added that he has a keen sense for the vivid and picturesque in language, which contributes not a little to the pleasure of reading the book.

¹ *Sixty Years of Protection in Canada (1846–1907)*, where Industry Leans on the Politician, by Edmund Porritt x, 478 pp London, 1908

A long introductory chapter, entitled "The Grip of the Protected Interests on the Government and the Press" in a measure summarizes the work. This is followed by a brief account (Chap. 2) of the repeal of the Corn Laws in England in 1846, and the consequent grant of fiscal freedom to Canada. Out of this revolutionary change came four distinct movements in Canada; and the remainder of the book is devoted to tracing their development and influence.

The free trade movement, inaugurated by the Free Trade League, was kept alive by the Liberals until the "Great Betrayal" of 1897. The movement for annexation to the United States commanded some support for several years, culminating in the annexation manifestoes of 1849. It was never, however, of a serious character, being partly a counsel of despair, and partly intended to frighten England into restoring a preference for Canadian products. The movement for reciprocity with the United States was far more substantial, leading to the Elgin-Marcy treaty, in effect 1854-1866; and to several later attempts on the part of Canada to renew reciprocal relations with the United States. The chapters on reciprocity (IV-VI) are a distinct contribution to the literature of the subject, giving a keen analysis of the causes leading to the treaty, of the distribution of benefits of reciprocity, and of the reasons for its abrogation by the United States. Finally, the bulk of the book (Chaps. VII-XIV) is devoted to the history of the National Policy in Canada, especially the protective tariffs of the United Provinces of Ontario and Quebec in 1858-59, which were largely responsible for the abrogation of reciprocity; the retaliatory Dominion tariffs of 1870-74; the protective policy of the conservative governments from 1878 to 1896; and the great extension of the protective system by the liberals from 1897 to 1907, not only through higher duties, but also through various supplementary measures. The most important of these are: (1) lavish bounties, (2) the law requiring Canadian rails and rolling stock to be used on all roads receiving government sub-

sidies (1900), (3) the amended patent law of 1903, which (it is alleged) has forced 130 American concerns to open branch factories in Canada, (4) the Anti-Dumping Act of 1904, and (5) the revision of postal rates in 1907, designed to exclude or at least to limit the circulation of advertising matter from the United States. When to all this are added bounties from the provincial treasuries and many forms of aid by municipalities (free sites, bonuses, free loans, tax exemptions, fixed taxes for a long term of years), the author would appear to be well within the truth in maintaining that "protection to home industries is to-day more firmly intrenched in Canada than in any other country in the Anglo-Saxon world."

Incidentally, a lurid light is cast on the "Red Parlour," the Canadian counterpart of the "fat-frying" process familiar in the United States; on the extortions practised on the public by the multitude of combinations in restraint of trade which promptly grew up behind the tariff wall; on the control of newspapers by captains of protected industries, which has left the general public practically without organs of publicity; and on the betrayal of their own political principles by the Liberals when they came into power, which has left the farmers and the laboring classes — everyone, in fact, except the two thousand members of the Canadian Manufacturers Association — entirely without representation in Parliament, and helpless in the face of the organized special interests that prey upon society. It is also made clear how unutterably absurd, from the Canadian standpoint, is the Chamberlain plan of interlacing a protective system in England with a protective system in the colonies.

In brief, the book is valuable for its clear and concrete presentation of the facts as to reciprocity and protection in Canada; and parts of the discussion, especially those pertaining to the effect of protection in raising prices, fomenting combinations, creating a privileged class whose interests differ from the interests of the public, and debauching political life, are equally applicable to other countries.

Two omissions may be noted. There is no adequate explanation why, if the farmers understand the futility of a tariff on imports to raise the prices of their exports (as they do not in the United States, but are said to do in Canada), they have not established a party to represent their interests. Again, no attempt is made to trace the effects of the preference established for British goods in 1897, and still maintained with some modifications in details.

It is a familiar argument in the United States that the protective tariff is unconstitutional; the author of *The Passing of the Tariff*¹ holds that it is un-Christian and irreligious, "a relic of barbarism, along with slavery and polygamy," and as such destined to be speedily destroyed. Indeed, he adds, "the high tariff men . . . have barely prevailed to postpone tariff reform till after the presidential election of 1908." This was obviously written before "revision downward" had been officially interpreted by the Payne-Aldrich bill.

In a more definite way, it is predicted that the protective tariff will be abolished: (1) because "the international conferences at The Hague mean the political unity of mankind;" (2) because protection is believed to foster trusts; (3) because people resent the sale of goods cheaper in foreign countries than at home; (4) because some manufacturers believe the tariff hinders the winning of foreign markets; (5) because protective tariffs lead to retaliation; and (6) because incomes and inheritances are about to be taxed, consequently the tariff can be lowered as less revenue will be needed from imports. The author evidently has no suspicion that a reduction of the tariff might increase the revenue from it.

It is unfortunate that the author did not develop his dictum that "The commercial world will work out its salvation on commercial lines. . . . The Free Trade League is about to find itself distanced in the race by the men who

¹ *The Passing of the Tariff*, by Raymond L. Bridgman. 272 pp. Boston, 1909.

have been the supporters of the Home Market Club." As matters stand, the book does indeed treat a number of new points, and a number of important points: but what is new is not important, and what is important is not new. There is however a bare possibility that it may convince some sentimentally-minded general reader, who has been voting for high tariffs, of the error of his ways: especially as the author's declaration that "the mistaken doctrine (protection) is fast approaching to the limit of its *earthly* existence," suggests tremendous possibilities elsewhere. Evidently Dante missed a great opportunity.

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